Budget 1996

Budget in Brief

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

March 6, 1996

Canada

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"Seldom, in our history, have so many experienced such anxiety. Canadians feel our very way of life is at risk.

If there is one obligation before government today, it is to do its part to address these deep concerns. It is to do what we must so that confidence can overcome anxiety, and hope can replace despair. In short, we must act now to help Canadians secure their future.

Canadians know this can't be done by government alone. It will require the concerted efforts of individual Canadians, their governments, business and others for our country to tackle these challenges effectively. What Canadians want from their government is for it to set the goals, to have a plan and then to work as hard as it can – and as long as it must – to help get the job done."

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Securing the Future

The 1996 budget consolidates and extends the actions taken under the comprehensive strategy set out in the 1994 and 1995 budgets. The three budgets work together to help Canadians secure their future in a number of key areas:

Securing our financial future: The government's fiscal goals will be met or exceeded, year by year, through sustained reductions in government program spending.

Getting government right: Further action is being taken to define a more appropriate and effective role for the federal government in the modern economy and federation.

Securing social programs for the next century: The government is acting to restore confidence in the old age security system and provide a secure, stable and growing system of federal support for medicare, post-secondary education and social assistance.

Investing in the future: The government has reallocated money to new investments in priority initiatives to support youth, technology and international trade – areas critical to future jobs and growth.

Securing Our Financial Future

The deficit: Actions set in motion in the 1994 and 1995 budgets ensure that the deficit targets for 1995-96 and 1996-97 will be achieved. This budget secures the government's deficit target of 2 per cent of GDP in 1997-98 and takes action to ensure ongoing deficit reduction. The deficit track, year by year:

1993-94 – $42 billion (5.9 per cent of GDP)
1994-95 – $37.5 billion (5.0 per cent of GDP)
1995-96 – $32.7 billion (4.2 per cent of GDP)
1996-97 – $24.3 billion (3 per cent of GDP)
1997-98 – $17 billion (2 per cent of GDP)

Table 1
Summary statement of transactions:
Fiscal outlook with budget measures

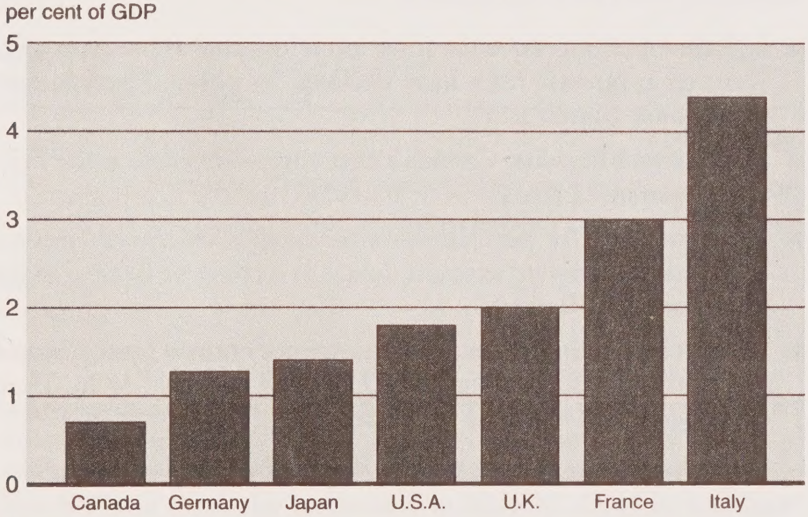
	1993-94	1994-95	1995-96	1996-97	1997-98
	(billions of dollars)				
Budgetary revenues	116.0	123.3	130.6	135.0	141.0
Program spending	-120.0	-118.7	-113.8	-109.0	-106.0
Operating balance	-4.0	4.6	16.8	26.0	35.0
Public debt charges	-38.0	-42.0	-47.0	-47.8	-49.0
Underlying deficit	-42.0	-37.5	-30.2	-21.8	-14.0
Contingency reserve			-2.5	-2.5	-3.0
Deficit	-42.0	-37.5	-32.7	-24.3	-17.0
Non-budgetary transactions	12.2	11.6	12.7	10.6	11.0
Financial requirements	-29.8	-25.8	-20.0	-13.7	-6.0
Net public debt	508.2	545.7	578.4	602.7	619.7
GDP (calendar year)	712.9	750.1	780.0	806.0	841.0
Per cent of GDP					
Revenues	16.3	16.4	16.7	16.7	16.8
Program spending	-16.8	-15.8	-14.6	-13.5	-12.6
Deficit	-5.9	-5.0	-4.2	-3.0	-2.0
Financial requirements	-4.2	-3.4	-2.6	-1.7	-0.7
Net public debt	71.3	72.8	74.2	74.8	73.7

No tax rate increases: There are no tax rate increases in this budget, not personal, not corporate, not excise. There have been no personal income tax rate increases in any of the last three budgets.

Program spending: This budget will help ensure deficit reduction beyond 1997-98 with $1.9 billion in additional spending cuts for 1998-99. There will be a substantial and sustained reduction in program spending – all budgetary spending except interest on the public debt – from $120 billion in 1993-94 to $105.5 billion in 1998-99, a decline of 12 per cent.

Chart 1

Projected 1997 central government financial requirements



Source: National budget plans.

Financial requirements – the new funds that government must borrow from financial markets each year – will be cut to $6 billion (0.7 per cent of GDP) in 1997-98, the lowest among all G-7 central governments.

Combined savings resulting from the 1994, 1995 and 1996 budgets will mean that the net debt in 1998-99 will be $91 billion lower than otherwise would have been the case. There will be almost $7 of expenditure cuts for every dollar of tax increases in the combined actions of the three budgets.

The debt-to-GDP ratio (the size of the debt in relation to Canada's economy) will finally begin to decline in 1997-98 – the economy will grow faster than the debt.

Economic assumptions: The government's fiscal projections continue to be based on economic assumptions that are deliberately more cautious than those of most private sector forecasters. In addition, substantial contingency reserves will back up the assumptions. If not needed to meet unforeseen economic changes, the reserves will go to reducing the deficit further.

Economic results: Restoring financial health paves the way for a more dynamic job-creating economy. A lower deficit means lower interest rates, growing confidence and new investment leading to more jobs and growth.

- *Inflation and interest rates:* Inflation is low and will remain low. Short-term interest rates have declined by about 3 percentage points since March 1995.
- *Cost competitiveness:* Canada's cost competitiveness is the best it has been in 45 years.
- *Trade surplus:* Our merchandise trade surplus has reached record levels and the current account deficit as a share of GDP is at its lowest level in 10 years.
- *Foreign borrowing:* Canadian dependence on new foreign loans has fallen from $29 billion in 1993 to $13 billion in 1995. That dependence will continue to decline.

Job creation is the most important statistic of all. Since the beginning of 1995, 263,000 private sector jobs have been created. These gains have been partially offset by declines in public sector employment. Further reductions in the unemployment rate will require a strengthening of private sector job creation.

The challenge is to build on our gains. Toward that goal, the budget announces a wide range of additional actions to help secure the future for Canadians.

Getting Government Right

The budget takes further actions to create a focused, more affordable government that effectively advances the key priorities of a productive, job-creating economy in a modern Canadian federation.

Program Review: The program review began in 1995 and is extended in this budget with $368 million in spending cuts for 1997-98 and more than $1.9 billion in 1998-99. The savings will help to meet the 2-per-cent deficit target in 1997-98, to guarantee continued deficit reduction beyond the fiscal planning period and to fund high-priority initiatives.

- Federal departmental spending will be 22 per cent lower in 1998-99 than 1994-95.

Table 2
Direct budget savings

	1994-95	1995-96	1996-97	1997-98	1998-99	Cumulative effect on net debt
			(billions of dollars)			
1994 budget	1.5	8.0	10.9	11.9	12.6	44.9
1995 budget		5.0	10.6	13.3	13.8	42.7
Total	1.5	13.0	21.5	25.2	26.4	87.6
1995 Employment Insurance reform[1]				0.7	0.8	1.5
1996 budget			0.0	0.2	1.7	1.9
Total	1.5	13.0	21.5	26.1	28.9	91.0
of which:						
Expenditures	0.7	10.6	18.9	23.3	25.6	79.0
Revenues	0.8	2.4	2.6	2.8	3.4	12.0

[1] Savings for 1996-97 were included in 1995 budget savings.

Note: Table shows net savings from deficits that would have otherwise occurred in the absence of direct measures in the budgets. Numbers may not add due to rounding.

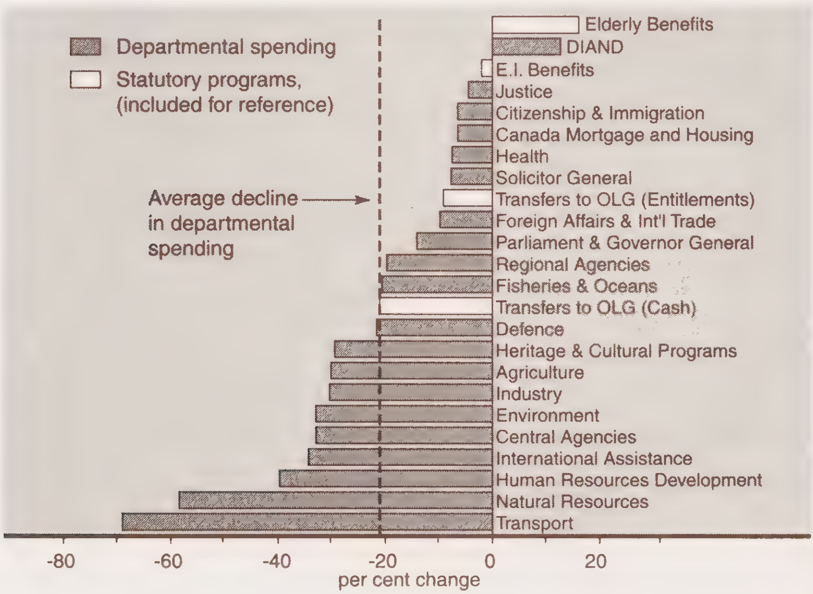
Departmental spending: Most departments will have their budgets cut by at least a further 3.5 per cent in 1998-99; some are cut much more.

- Spending on defence and international assistance will be further reduced. The growth of spending on Inuit and Indian programming will be restrained.
- The dairy subsidy will be phased out over five years and the postal subsidy program reduced. By 1998-99, grants and contributions to business, including reallocation to new initiatives to encourage technology and innovation, will be down 60 per cent from 1994-95, from $3.7 billion to $1.5 billion.
- Further savings in VIA Rail's operating subsidy will be achieved in 1998-99 through measures to improve productivity, and funding for Atomic Energy of Canada Limited will be reduced.

Chart 2

Departmental spending

1998-99 relative to 1994-95



- *Canada Mortgage and Housing Corporation* will phase out its remaining role in social housing except for housing on Indian reserves. The government is now prepared to offer provincial and territorial governments the opportunity to take over the management of existing social housing resources provided that federal subsidies on existing housing continue to be used for housing assistance for low-income households.

Privatization, commercialization: Building on the progress made in privatizing Canadian National Railways and selling a substantial part of its shares in Petro-Canada, the government will continue to pursue opportunities for privatization of Crown corporations and commercialization of other government activities. Initiatives will include the sale of Theratronics International Limited and the government's shares in National Sea Products Limited.

Alternative service delivery: Legislation will be introduced to create fewer, more effective service agencies with the emphasis on better service, greater efficiency and partnership efforts.

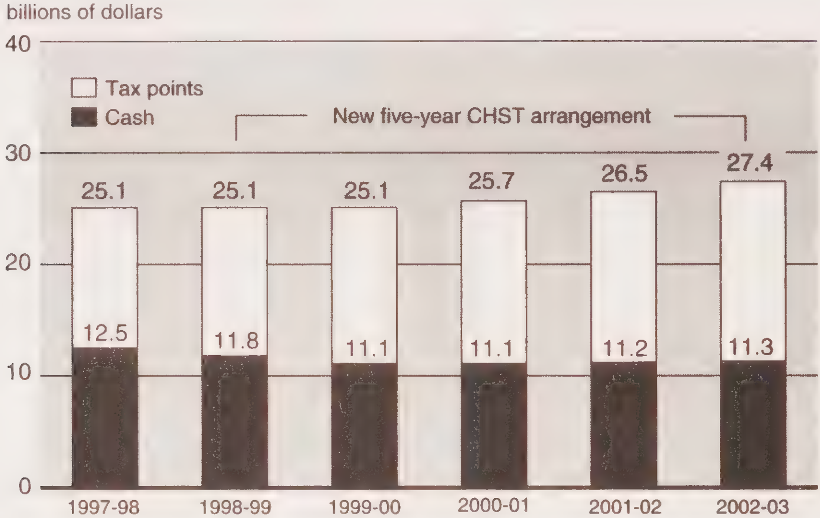
- A *Single Food Inspection Agency* will regroup food inspection and quarantine-related services currently provided by three government departments into one single agency. The new agency will facilitate the development of a new partnership with the provinces in a more effective, efficient joint food inspection system.
- *Canada Revenue Commission:* A national revenue agency to be called the Canada Revenue Commission will be created. It will facilitate less costly administration and the development of a closer partnership with the provinces in revenue collection.
- A *Parks Canada Agency* will be set up as a separate service agency to manage and preserve a system of national parks, national historic sites and canals and related protected areas for the use and enjoyment of Canadians.

Securing social programs for the future

The government is acting to ensure that social programs are affordable and will be there for Canadians in the future.

Chart 3

CHST: Security and stability



Restoring growth to transfers to provinces

Canada Health and Social Transfer (CHST): Stability and subsequent growth will be restored to transfers to the provinces with a stable, predictable and sustainable system of long-term CHST funding for health care, post-secondary education and social assistance.

Secure and growing funding: The federal government will legislate a new five-year CHST funding arrangement beginning in 1998-99. For the first two years, federal support (tax transfers plus cash) will be maintained at $25.1 billion. Over the subsequent three years, transfers will grow at an increasing pace related to the economy.

- Entitlements over the five-year period will grow from $25.1 billion to approximately $27.4 billion.
- To provide additional protection to provinces, a new cash floor will guarantee cash transfers of at least $11 billion in all years.
- Secure and growing funding will ensure the federal government's capacity to uphold the principles of the Canada Health Act and the principle that no residency requirements can be imposed on social assistance recipients who move from one province to another.

- The budget proposes to phase in over the five-year period a new way of allocating CHST transfers among provinces. It would reduce by half the current per capita disparities in funding among provinces. The government will review with the provinces refinements to allocation that might be appropriate after the five-year period.

Health Services Research Fund: Federal funds will also be provided to help establish a Health Services Research Fund in partnership with provincial governments, health institutions and the private sector. The purpose of the research will be to determine what works in Canada's health care system and what does not.

Restoring confidence in the public pension system

The budget takes action to ensure that Canada's Old Age Security system will be there in the future for Canadians when they retire.

For future seniors, benefits will be better targeted by providing more assistance to low-income Canadians and reducing or eliminating assistance to those with higher incomes. For today's seniors and near seniors – and their spouses, no matter what age – pensions will be protected. They will be guaranteed no less than current pension payments.

A New Seniors Benefit will replace the existing Old Age Security and Guaranteed Income Supplement (OAS/GIS) benefits beginning in 2001.

- *Tax free:* The new benefit will be completely tax free and will incorporate the age and pension income tax credits.
- *Paid monthly:* Benefits will be delivered in a single monthly payment. Payments to spouses will be made in separate and equal cheques to each spouse.
- *More for low-income seniors:* GIS recipients will receive an additional $120 per year.
- *Spouse's Allowance:* The Spouse's Allowance program will remain in place and payments will be increased by $120 per year.
- *Combined income:* For couples, the amount of the payment will be determined on the basis of the combined income of the spouses, as is, and always has been, the case with the GIS.

- *Fully indexed:* Both the benefit levels and the thresholds at which benefits begin to be reduced will be fully indexed to inflation. This will be an important improvement for seniors who worry about eroding benefits.
- *One application:* Seniors will only have to apply once for the benefit when they turn 65. The level of benefits will be automatically recalculated each year, based on the previous year's tax return.

Most will be as well or better off: The vast majority of all seniors will be as well or better off, including:

- three-quarters of all elderly individuals and couples;
- nine out of 10 single elderly women;
- generally, all singles and couples with incomes up to approximately $40,000.

Benefit phase-out for higher incomes: For future seniors under the new system, those with higher incomes will continue to receive benefits, but at a lower level the more income they have from other sources, and those with the highest incomes will no longer receive government assistance.

Protecting today's seniors: The government's commitment to protect OAS-GIS payments for today's seniors will be met and surpassed.

Those 60 and older as of December 31, 1995 will have a choice between moving to the new system or maintaining their current monthly OAS/GIS payments, as currently structured – whichever is more advantageous to them. However, the vast majority will be better off under the new system.

More affordable and sustainable: The new Seniors Benefit will help make the public pension system more affordable and sustainable. Targeting help to those who need it most will slow the rate of growth of public pensions, making them more affordable for future generations. This will ensure that the pension system is sustainable in the future.

The new Seniors Benefit is more fully described in a separate budget document entitled Securing the Future: The Seniors Benefit.

Eligibility of immigrants for OAS/GIS pensions will be better linked to their length of residence in Canada, as it is for other Canadians. The changes will apply immediately to newcomers arriving in Canada after budget day. For all other newcomers who have already landed in Canada as of budget day, the existing rules will apply until December 31, 2000, thereby giving a period of notice. Those already receiving benefits will not be affected.

The Canada Pension Plan continues as a separate contributory pension plan. The government is working with the provinces and territories to make changes to the CPP so it can be sustained for future generations. The governments of Canada, the provinces and the territories have released an information paper on the CPP. It will form the basis of public consultations on the CPP to be held across Canada, beginning this month.

Increased assistance to those in need

Child Support: The government is announcing new child support measures to ensure that adequate levels of support are paid regularly and on time to the custodial parent. The package includes changes to the tax treatment of child support, new guidelines and enhanced enforcement. The measures are based on the philosophy that child support is not discretionary – it is the first obligation of parents, and child support payments are there to provide support for children, not income for parents.

- *New tax treatment:* The budget proposes that child support not be included in the income of the recipient for tax purposes nor be deductible to the payer if it is paid pursuant to an agreement or court order made on or after May 1, 1997. Parents with existing agreements will be able to file a joint election with Revenue Canada to apply the new tax treatment.

Further details are contained in the document, The New Child Support Package.

The Working Income Supplement under the Child Tax benefit will be doubled in two stages from $500 to $750 in July 1997 and to $1,000 in July 1998. This will provide an additional $250 million annually to an estimated 700,000 low-income working families, one-third of which are single-parent families.

Child care expense deduction age limit: The age limit for the child care expense deduction will be raised to 16 from 14 to help parents who must work at night.

Credit for infirm dependants: The value of the tax credit for infirm dependants will be increased from $270 to $400, and the dependant's income threshold for the phase-out of benefits will rise from $2,690 to $4,103.

Charitable donations: Tax assistance for charitable donations will be increased by raising the annual limit on donations from 20 per cent of net income to 50 per cent; and to 100 per cent in the event of death. Gifts of appreciated capital property will benefit from higher limits of up to 100 per cent of net income. Ways of further encouraging charitable giving and of ensuring that support for charities is effectively translated into beneficial activities will be examined.

Investing in the Future

The budget announces actions, funded by reallocation in government spending, to increase Canada's investment in areas critical to the country's economic future and to future jobs and growth – youth, technology and international trade.

Youth: Education and skills development for young Canadians will be further encouraged with an additional $165 million over three years funded from reallocation within the tax system.

- *Education tax credit:* To recognize the non-tuition costs of schooling, the amount on which the credit is based will be increased from $80 to $100 a month.
- *Transfer of tuition and education credits:* To support parents or spouses who help underwrite the education of students, the limit on transfer of tuition and education credits will also be increased from $680 to $850. This represents an increase from $4,000 to $5,000 in the tuition fee and education amounts which may be transferred.
- *Registered Education Savings Plans (RESPs):* To assist those who save for their children's education, the annual limit on contributions to RESPs will be increased from $1,500 to $2,000. The lifetime contribution limit per beneficiary will be increased from $31,500 to $42,000.

- *Child care expense deduction:* For single parents who are full-time students, the child care expense deduction will be allowed against any income. This measure will also apply to two-parent families when both parents are full-time students. Parents who are completing high school will be allowed this deduction for the first time.

Student loans: More flexible repayment terms will also be made available for loans under the Canada Student Loans Act.

New employment opportunities will be created for youth by reallocating $315 million of budget savings over three years.

- *Student summer employment:* Funds for 1996-97 student summer employment placements will be doubled to $120 million.
- *Youth employment:* Support will also be increased to help young people who have left school to find employment opportunities. The government seeks a new partnership between the public and private sectors to create entry-level jobs for the young.

Technology and innovation: The budget increases investment in technology and innovation through a number of actions over the next three years, funded by reallocations of $270 million from budget savings.

- *Technology Partnerships Canada* will be established to encourage partnership and risk sharing with the private sector and to leverage investment in the development and commercialization of high technology products and processes. The fund will grow from about $150 million in 1996-97 to about $250 million by 1998-99.
- *Business Development Bank:* New equity capital of $50 million will be injected into the Business Development Bank to increase its lending efforts in strategic growth sectors, such as new technology. This will permit up to an additional $350 million in loans to knowledge-based, export and growth businesses.
- *The SchoolNet program* will be expanded. It will ensure that every school and library in the country is connected to the information highway by 1998. By the same year, 1,000 rural communities will also be connected through the **Community Access** component of SchoolNet. With the help of 2,000 computer students, 50,000 small businesses will be connected to the Internet. Students will both install those systems and advise their owners on how best to use them.

- *Information highway:* To help increase the contribution of the information highway to jobs and growth, the Ministers of Industry and Canadian Heritage will be introducing policies and reforms to facilitate greater reliance on the marketplace while respecting the commitment to affordable access and to a Canadian presence on the information highway.

International trade: New steps will be taken to realize Canada's trade potential.

- *The Export Development Corporation* will receive $50 million in new equity capital for further innovative types of export financing.
- *Export financing:* A major increase in financing available to exporters will be achieved by reallocating resources from concessional loans to foreign borrowers to finance higher volumes of non-concessional financing under an improved system of risk management.

Business tax review: A comprehensive review of business taxation will be carried out by a technical committee with three key goals in mind: promoting jobs and growth; simplifying the system and enhancing fairness.

Revenues

The budget proposes further actions to ensure that the tax system raises revenues fairly and effectively, and is supportive of jobs and growth. Revenues raised will be reallocated to priority economic and social initiatives such as improved tax assistance for students, charitable donations and care of the infirm.

Table 3
Summary of tax measures

	1996-97	1997-98	1998-99
	(millions of dollars)		
Revenue-enhancing measures			
Personal income tax			
Changes to RRSPs			
Restrict tax assistance/ non-deductibility of fees		45	180
Tax world-wide income of non-res. pensioners	10	10	10
LSVC: Restrict tax assistance	15	60	70
Measures to combat underground economy	25	60	100
Total	50	175	360
Business income tax			
Resource sector			
Repeal JEC rules	–	–	–
Tighten flow-through shares	15	20	20
Temporary tax on banks	25	40	
Overseas employment credit	10	10	10
Total	50	70	30
Total	100	245	390
Reallocation to high-priority areas			
Personal income tax			
Charitable donations	-5	-20	-20
Learning package	-5	-80	-80
Infirm credit	-5	-35	-40
Child support/ Working Income Supplement	-10	-105	-180
Total	-25	-240	-320
Business income tax			
CCA for new mines, oil sands	-5	-5	-5
Extension of 60-day flow-through share rule	–	–	–
Broaden investor base for renewable energy[1]		-5	-10
Expand flow-through shares to renewable sector	–	–	–
Total	-30	-250	-335
Net impact of revenue actions	70	-5	55

[1] The budget proposes to relax the “specified energy property” rules.

– Less then $5 million.

Fairer, more affordable tax assistance for retirement savings

A number of changes are proposed to better target tax assistance for retirement savings to modest and middle income Canadians and to limit the cost to taxpayers.

- *Lifetime carry forward:* The seven-year limit on carrying forward unused RRSP contribution room will be eliminated to provide greater flexibility in making up for years when full contributions are not made. This action recognizes that many younger Canadians have difficulty finding the money to make full RRSP contributions early in their working lives and through their child-raising years.
- *RRSP contribution limit:* Tax assistance will be limited to helping build pensions based on earnings up to twice the average wage. To achieve this, annual RRSP and money purchase pension plan contribution limits will be frozen at $13,500 through 2003 before rising to $15,500 by 2005. The pension limit for defined benefit pension plans will also be frozen through to 2004.
- *RRSP age limit:* The age limit for RRSP contributions will be reduced from 71 to 69. This means individuals must begin drawing on their private pension savings by the end of the year in which they turn 69. This will bring the limit more into line with the age at which Canadians are retiring and will limit unnecessary tax deferral.
- *Self-directed RRSP administration fees:* Administration fees for self-directed RRSPs will no longer be tax-deductible if paid for outside the plan – the same rule as for other RRSP expenses.
- *Non-resident pension recipients:* The pensions of non-resident pension recipients will be taxed on the basis of world-wide income to eliminate a tax benefit that is unavailable to Canadian residents. The government is working with foreign tax authorities to ensure fair taxation of all pension recipients.

Several other measures are proposed to tighten and clarify the tax system and raise revenues for reallocation to priority initiatives.

- *Underground economy:* Revenue Canada will step up its actions to combat the underground economy by devoting more resources to its audit program for unincorporated businesses and self-employed individuals in order to increase the audit coverage rate for these groups. It is expected additional revenues will be about three times the cost involved.

- *Labour Sponsored Venture Capital Corporations (LSVCCs):* Special incentives to encourage investment in LSVCCs will be reduced. The tax credit for investment in LSVCCs will be reduced from 20 per cent to a maximum of 15 per cent for shares acquired after March 5, 1996. The maximum share purchase eligible for the federal tax credit will be reduced from $5,000 to $3,500, effective immediately. These measures reflect the fact that LSVCCs now have a large pool of capital to be invested in small businesses as a result of the incentives. The minimum holding period normally applied to federally registered LSVCC shares will be increased from five to eight years.
- *Resource taxation:* The rules related to the resource allowance will be tightened and clarified to ensure a more consistent and stable tax structure. Changes will be made to the accelerated cost allowance rules for new mines, including oil sands mines. Eligibility will be broadened so that other types of oil sands mines are treated more consistently.
- *Renewable and non-renewable energy investments:* To encourage renewable energy investments, the tax rules will be changed to create an essentially level playing field. Proposed changes will improve tax rules for the financing of some renewable energy and conservation projects, including the extension of flow-through share provisions.

Large deposit-taking institutions: The temporary 12-per-cent surcharge on banks and other large deposit-taking institutions will be extended for another year.

Sales tax

The government is continuing its effort to replace the federal sales tax. The objective is a system that is fairer for Canadians, simpler and less costly for businesses to comply with, and more efficient to administer. Toward that goal, the government is working with a number of provinces. If successful in getting provincial agreement, the government will take the necessary steps to implement harmonization.

Conclusion

"This budget is about consolidating the gains we have made. It is about addressing problems before they arise. It is about managing ahead, continuing to put in place new building blocks for security and prosperity ...

Our challenge today is to make Canada a place of great expectations, a country once again where our children believe they have the opportunity to do better than their parents, a place where they can dream large dreams once more.

Let us follow in the footsteps of those who came before, who saw challenge as a rallying cry to move forward, never as an excuse to give up.

And let it be said by those who come after us, that we set the goals, that we met them together, that we propelled Canada forward into a new millennium – still and always among the front ranks of nations."